1991

Thirty-two tax facts: a 1991 tax preparation checklist

American Institute of Certified Public Accountants. Communications Division

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Thirty-two Tax Facts

A 1991 Tax-Preparation Checklist

This Year, Make Tax Time Less Taxing. Get the Facts...

The First Step

Trying to reduce your tax bill is like trying to lose weight. It isn't easy, but it is possible. The key to a trimmer tax bill is taking the time to organize your financial records and understand the basic tax rules.

The hardest part is knowing where to start. That's where this guide comes in. In the next few pages, you will find some hints on how your records can lead you to valuable tax deductions. With that information fresh in your mind, you can move on to the 32 tax facts designed to help you reduce your 1991 federal income tax liability.

Gather Your Income Records

- ***Wages or Business Income***
  Collect your W-2 forms and/or business records.

- ***Interest/Dividends***
  Set aside interest and dividend statements (Forms 1099-Int and 1099-Div).

- ***Capital Gains***
  If you sold securities in 1991, make sure your broker sends you copies of your transaction slips and Form 1099-B. Remember, you will need to determine the cost basis for each security sold. If you sold your home, put together your closing statements, records of capital improvements, plus any receipts proving how much you spent on fixing up the house prior to its sale.

- ***Other Taxable Income***
  Gather records and 1099 forms related to other income, such as unemployment compensation, certain scholarships and fellowships, taxable Social Security or pension benefits, state and local income tax refunds, alimony, and non-employee compensation.

Uncovering Deductions

- ***Review 1990's Return***
  Last year's tax return can remind you of the type of deductions for which you qualify, as well as the type of supporting documents and schedules you may need to attach to your return.

- ***Check Your Checkbook***
  Set aside any canceled checks that relate to your itemized deductions — including business expenses, job-related moving expenses, charitable contributions, medical bills, child-care payments, real estate activities, state and local income taxes, work uniforms, dues to professional societies, and other miscellaneous expenses.

- ***Review Charge Account Statements***
  Review your charge account receipts and monthly credit statements for proof of tax-deductible purchases and expenses. Keep in mind that personal interest, including interest charged on credit cards, is no longer deductible.

- ***Examine Your Paycheck Stubs***
  Your paycheck stubs may reveal automatic payroll deductions for dental or medical insurance, or donations to such charities as the United Way.

- ***Update Dependency Status***
  If you married, divorced, gave birth to a child, or assumed financial responsibility for a dependent parent in 1991, make sure you notify your tax preparer. Remember that any change in the number of dependents you have will alter the number of exemptions you may be able to claim. For 1991, each exemption equals $2,150. However, high-income taxpayers should ask their CPAs to explain the new phase-out of exemptions.

These 32 Tax Facts May Help Lower Your 1991 Federal Income Tax Liability.

Itemizing Deductions

✔ Single people should itemize when their deductions exceed $3,400.

✔ Married people who file jointly should itemize when their deductions exceed $5,700.

✔ Individuals filing as head of household should itemize when their deductions exceed $5,000.

Miscellaneous Expenses

✔ Miscellaneous expenses are deductible to the extent that they exceed 2% of adjusted gross income (AGI).

✔ Examples of miscellaneous expenses are: job-hunting costs, employment-related education, tax-preparation fees, subscriptions to professional or trade publications, uniforms and work clothes, dues to unions or professional organizations, safe-deposit-box rental fees, and employee business expenses.

✔ Generally, you may deduct 100% of your allowable travel and lodging expenses, and 80% of your business-related meals and entertainment expenses, subject, of course, to the 2% floor.

✔ You may deduct 27.5 cents per mile for 1991 business travel.

✔ If your AGI exceeds $100,000, you must now reduce your total itemized deductions by 3% of the amount by which your AGI tops $100,000. The maximum loss of deductions is 80% — not counting such deductions as medical expenses, investment interest, or casualty losses.

Homeowner Expenses

✔ Homeowners can generally deduct interest on mortgages of up to $1 million if the funds are used to purchase or substantially improve a primary or secondary home.

✔ Interest on home equity loans of up to $100,000 is also deductible.

✔ You can deduct any property and real estate taxes paid in 1991.

✔ If you or your spouse are at least 55 years old, you may be able to exclude from taxable income up to $125,000 of the profit realized from selling your principal home. This exclusion is available only once in a lifetime, per individual or couple.

✔ If you own rental property, keep in mind that taxpayers with AGIs of $100,000 or less can still deduct up to $25,000 in passive losses associated with a rental property that they actively manage. This deduction phases out for AGIs from $100,000 to $150,000.

Moving Expenses

✔ You may be able to deduct your unreimbursed moving expenses if you (1) moved within one year of starting a new job; and (2) the distance from your old home to your new job is at least 35 miles farther than the distance from your old home to your old job.

✔ If you relocated but did not change employers, your moving expenses may still be tax-deductible.

✔ Eligible moving expenses include reasonable fees for packing and transporting your family and household goods; the costs of travel, lodging and meals while en route to the new home; and such indirect costs as pre-move house-hunting expenses, and temporary living costs in the new area.

Charitable Contributions

✔ You can deduct gifts to charitable organizations that were paid or *charged* in 1991. Pledges, however, do not count.

✔ If you volunteered for a qualified charity, you may also deduct such out-of-pocket expenses as transportation and uniforms. The cost of your time, however, is not deductible.

✔ For 1991 only, you may be able to deduct the fair market value of art or other qualified appreciated property donated to charities *without triggering the alternative minimum tax.*

Medical Expenses

✔ Unreimbursed medical expenses are deductible to the extent that they exceed 7.5% of your AGI. In addition to physician and hospital fees, you may be able to deduct such expenses as insurance premiums and transportation to and from medical facilities.

✔ In some cases, certain home improvements may be deductible as a medical expense. For example, deductions have been allowed for special bathroom facilities for handicapped individuals.

✔ The cost of unnecessary cosmetic surgery, such as hair transplants, is no longer deductible.

Tax Facts for Parents

✔ If you pay someone to care for a dependent child (or relative) while you work, you may qualify for a dependent-care tax credit. Depending on your AGI, the credit can go as high as $720 for one qualifying dependent and $1,440 for two or more.

✔ You must provide the IRS with Social Security numbers for dependents who were at least one year old by the end of 1991, or pay a penalty.

Tips for the Self-Employed

✔ You are subject to the self-employment tax when your net earnings exceed $400. But you can now deduct 50% of the tax.

✔ As a self-employed individual, you can deduct 25% of your annual medical insurance costs from your gross income, without regard to the 7.5% floor on medical expenses. The remaining 75% can be added to your other medical costs.

✔ You can contribute to an established Keogh retirement account until your tax-filing deadline.

Casualty Losses

✔ Losses incurred as a result of unexpected disaster — including storms, fires, automobile accidents, or bank failures — are deductible to the extent that they exceed 10% of your AGI and have not been reimbursed by your insurance company. Each loss is also subject to a $100 deductible.

A Final Check-Up

✔ You may be eligible to make tax-deductible contributions to an IRA as late as April 15, 1992.

✔ If you can't file your tax return on time, request a filing extension by submitting Form 4868 by April 15, 1992, and paying the full amount of tax you estimate that you owe for 1991. The extension postpones the filing date until August 15, 1992.

✔ Before you mail your return, check your math, attach your W-2 and all appropriate forms, fill in your Social Security number, and *sign your return.* If you use a tax preparer, make sure he or she signs your tax return as well.

✔ Under the new tax rules, minimizing your tax bill will take more work than ever before. To get all the deductions you deserve, consult your CPA.